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*REPORT TO THE SUBCOMMITTEE
ON INTER-AMERICAN AFFAIRS
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES*

74-0113

Current Status And Future Prospects
Of The Social Progress Trust Fund

B-161470

Department of State
Department of the Treasury
Agency for International Development

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

MARCH 21, 1974

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-161470

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The Honorable Dante B. Fascell, Chairman
Subcommittee on Inter-American Affairs H 9120
Committee on Foreign Affairs
House of Representatives

Dear Mr. Chairman:

During hearings on our report concerning the U.S. system for appraising and evaluating Inter-American Development Bank projects and activities, you expressed interest in the current status of the Social Progress Trust Fund and the uses made of the funds appropriated for it. This review responds to your expressed interest.

We emphasized operations since the end of the Fund's original loan program in 1965, and the report contains several recommendations for improving the use of current and future Fund reflows, which are expected to be substantial. The report also reviews the uses made of the moneys previously appropriated for this Fund.

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As agreed, copies of this report are being sent to the Secretaries of State and the Treasury; the Administrator, Agency for International Development; the Chairman, House Committee on Foreign Affairs; the Chairman, Senate Committee on Foreign Relations; and the Chairmen, House and Senate Committees on Government Operations and Appropriations.

Sincerely yours,

Comptroller General
of the United States

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ABBREVIATIONS

FSO Fund for Special Operations
GAO General Accounting Office
IAF Inter-American Foundation
IDB Inter-American Development Bank
SPTF Social Progress Trust Fund

*COMPTROLLER GENERAL'S REPORT TO
THE CHAIRMAN, SUBCOMMITTEE ON
INTER-AMERICAN AFFAIRS
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES*

CURRENT STATUS AND FUTURE PROSPECTS
OF THE SOCIAL PROGRESS TRUST FUND
Department of State
Department of the Treasury
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Development
B-161470

D I G E S T

WHY THE REVIEW WAS MADE

The Chairman of the Subcommittee requested GAO to review the current operations and financial status of the Social Progress Trust Fund and the uses made of the moneys appropriated for it.

The United States established the Trust Fund in 1961 to improve the social welfare of Latin Americans and has contributed \$525 million to it. Since its inception, the Trust Fund has been administered by the Inter-American Development Bank under an agreement between the United States and the Bank.

In 1967 legislation, Congress directed the President to seek audit authority for GAO over any wholly U.S.-financed fund managed by an international organization. However, the executive branch has not been able to achieve this for the Trust Fund. Therefore, GAO performed its review from the viewpoint of executive branch management of U.S. interests in the Trust Fund.

FINDINGS AND CONCLUSIONS

As of June 30, 1973, the Trust Fund had net assets of about \$560 million, consisting of about \$51 million in cash and liquid assets, about \$368 million in outstanding loans and related receivables, and

another \$141 million in participations in loans of the Bank's Fund for Special Operations.

About \$40 million annually is being repaid on these loans and participations. Under current legislation, these significant resources, mostly in local currencies, should be used primarily for social development purposes.

Since 1965 the United States has not participated directly with the Bank in directing the use of the bulk of these resources, although the United States did specify that any use of these moneys should be for basic Trust Fund purposes. Moreover, since 1965 most Trust Fund resources have not been directed to specific end uses on the basis of a planned program designed to meet priority social development needs of Latin America. This contrasts sharply with early Trust Fund operations, when loans were made for specific projects and the United States reviewed and approved each loan.

Repayments have been used to purchase participations in loans made by the Bank's "soft loan" window, the Fund for Special Operations. The Bank's Board of Executive Directors and the United States do not select or approve the specific participations to be purchased by Trust Fund moneys. Participations are basically a money management technique designed to obtain the

maintenance-of-value protection of the Fund for Special Operations, which protects against devaluation losses since it calls for repayments in terms of the value of U.S. dollars at the time of repayment. (See pp. 14 to 16.)

Under the participation procedure most of the repayments have been channeled back to the same larger, more advanced countries that received the bulk of the original Trust Fund loans and the poorer, less developed countries have received only a smaller portion of the repayments. (See p. 16.)

Trust Fund repayments have also financed various technical assistance projects. While these uses are consistent with the purposes of the Trust Fund agreement, some of these projects are more oriented toward economic, rather than social, purposes. (See p. 16.)

GAO, though not evaluating the original \$494 million lending program, observed that:

- The executive branch did not independently assess Trust Fund effectiveness.
- Under the agreement, the Bank was not required to report on the overall effectiveness of Trust Fund use, and little has been done in this overall sense. (See pp. 10 to 12.)

The executive branch has not been able to obtain authority for the Comptroller General to examine this Trust Fund, although the Bank did agree that a new independent audit and evaluation body it was forming would also cover Trust Fund operations. (See p. 12.)

State and Treasury have considered alternative uses for Trust Fund reflows, and State has intermittently studied the question of the Trust Fund's future since 1970. They have not reached any overall conclusions or developed an overall program for using the approximately \$40 million worth of resources that will continue to be repaid annually into the Trust Fund through the rest of this decade.

At the end of November 1973, State advised GAO that the Bank, in cooperation with the United States, was nearing completion of arrangements to transfer a portion of current and future Trust Fund assets to the Inter-American Foundation-- a U.S. Government corporation established in 1969 to improve the U.S. social contribution to Latin America by assisting private groups on a people-to-people basis. (See pp. 17 and 18.)

In the Foreign Assistance Act of 1973 the Congress has gone on record in favor of transferring some of these moneys to the Inter-American Foundation. The act further expresses Congress' intent that Trust Fund resources which remain with the Bank should be used to the extent possible to assist the less developed Bank member countries. (See p. 17.)

RECOMMENDATIONS

The executive branch is considering the future use of Trust Fund resources and expects the return of some of these to a more direct type of use in the near future. However, to make the best possible use of all Trust Fund resources, the Secretaries of State and Treasury, in consultation with the Bank, should reassess current Trust Fund operations

and attempt to devise a new program or programs that will direct these resources to specific projects to assist the priority social needs of Latin America or seek other disposition of these resources in consultation with Congress. Any program developed should include these considerations:

- The highest priority social needs for Latin America.
- The extent to which Trust Fund resources can and should be used to effectively accomplish these priorities.
- The types of projects or activities that will best accomplish these priorities. (See p. 20.)

The Secretaries should coordinate with and fully inform the appropriate committees of the Congress on plans and proposals for using Trust Fund resources. (See p. 20.)

In addition, the Secretary of State should report annually to the Trust Fund's legislative oversight committees, the Senate Committee on Foreign Relations, and the House Committee on Foreign Affairs on programs or projects approved, future plans, and financial matters. Such reporting should include periodic assessments of the accomplishments and effectiveness of the programs or projects being conducted. (See p. 20.)

CHAPTER 1

INTRODUCTION

The Chairman, Subcommittee on Inter-American Affairs, House Committee on Foreign Affairs, requested us to review and report on the achievements, current operations, and financial status of the Social Progress Trust Fund (SPTF). The scope of our review is presented in chapter 5.

SPTF ORIGIN

In the late 1950s and 1960, United States and Latin American leaders recognized the need for programs to amend the extreme disparity between social levels among Latin American countries. This interest led to the enactment of the Latin American Development Act of September 1960 (22 U.S.C. 1442), which authorized \$500 million to the President to develop cooperative bilateral and multilateral programs to foster economic progress and improvements in the welfare and level of living of Latin Americans.

In 1961, \$394 million of the funds appropriated by the Congress was used to establish and initially fund SPTF. In 1963 the Congress increased the authorization and, pursuant to a 1964 appropriation, another \$131 million was allocated to SPTF. This \$525 million constituted SPTF's sole source of funding. By June 1973 net income earned during 12 years of operation had increased SPTF's assets to \$560 million. Appendix I shows the financial condition of SPTF at that time.

LEGISLATIVE INTENT

The intent of the authorizing legislation was to carry out a social development program. The 1960 act gave the President sufficient flexibility in developing programs in cooperation with the Latin nations. It authorized him to use the funds on such terms and conditions as he may specify. By early 1961 the executive branch had developed proposals concerning the types of program assistance to be provided. In his message to the Congress requesting the \$500 million appropriation in March 1961, President John F. Kennedy said that:

"The fund which I am requesting today will be devoted to social progress. Social progress is not a substitute for economic development. It is an effort to create a social framework within which all the people of a nation can share in the benefits of prosperity, and participate in the process of growth. Economic growth without social progress lets the great majority of the people remain in poverty, while a privileged few reap the benefits of rising abundance. In addition the process of growth largely depends on the existence of beneficial social conditions. Our own experience is witness to this. For much of our own great productivity and industrial development is based on our system of universal public education.

"Thus the purpose of our special effort for social progress is to overcome the barriers of geographical and social isolation, illiteracy and lack of educational opportunities, archaic tax and land tenure structures, and other institutional obstacles to broad participation in economic growth."

The President's message further stated that, of the \$500 million, \$394 million would be assigned to the Inter-American Development Bank (IDB) to be administered under a special trust agreement and that IDB would apply most of these funds on a loan basis with flexible terms, including low interest rates or repayment in local currency. The President stated that the major fields of activity for IDB would be land settlement and improved land use, housing, water supply and sanitation, and technical assistance relating to mobilizing domestic financial resources. The SPTF agreement added a fourth field--advanced education and training--but provided that SPTF financing for this area be supplementary.

Under the Foreign Assistance Act of 1963, the Congress amended the 1960 authorization, adding another \$180 million for these purposes. However, in 1964, the Congress appropriated only \$135 million and the President allocated \$131 million to SPTF.

This program was to be characterized by four new elements: (1) it was to be addressed to the critical lags in

social development, (2) it was to advocate self-help and related institutional improvements to promote enduring social progress, (3) it was to be a part of a sustained cooperative effort including Organization of American States planning and sound national programming, and (4) it was to be administered by a regional operating agency (IDB) in which Latin American participation was predominant.

SPTF AGREEMENT

Pursuant to the authorizing legislation, the United States signed an agreement with IDB on June 19, 1961, which specified that SPTF resources would be used to finance loans and technical assistance activities to improve conditions in these fields:

- Land settlement and improved land use.
- Low-income housing.
- Community water supply and sanitation facilities.
- Supplementary financing of facilities for advanced education and training.

Technical assistance to mobilize domestic financial resources and strengthen financial institutions could also be provided. The agreement further provided that technical assistance could be furnished on a grant, loan, or reimbursable basis.

SPTF was to provide capital on flexible terms and conditions, including repayment in local currencies and relending repaid funds and interest on a basis consistent with stated purposes to achieve greater social progress and more balanced economic growth. On termination, SPTF balances revert to the United States.

The agreement has also been amended twice to provide for additional programs to accelerate Latin America's economic integration and to further the process of identifying and developing worthwhile projects for financing.

SPTF ADMINISTRATION

IDB administers SPTF under the 1961 agreement, as amended. With minor exceptions, SPTF is managed in the same

manner as other IDB operations. The approval of SPTF loans and the majority of technical assistance is the responsibility of IDB's Board of Executive Directors, composed of United States and Latin American representatives and, since 1972, a representative of Canada. All decisions require a two-thirds weighted vote.

A public accounting firm conducts an annual financial audit of SPTF. Also, under the agreement, IDB has provided a separate annual report to the United States on matters relating to SPTF operations. After 1970 the separate annual reporting requirement was waived, but IDB has continued to provide some reporting in its own published annual reports.

The Department of State's Latin American Bureau has primary responsibility for managing U.S. interests in SPTF. The Agency for International Development (AID) is responsible for appropriation and residual equity accounting. Treasury, which has primary responsibility for dealing with IDB, also manages U.S. interests in SPTF. Major U.S. decisions are made with the assistance and advice of the National Advisory Council on International Monetary and Financial Policies. U.S. day-to-day dealings with IDB are conducted through the U.S. representative on IDB's Board of Executive Directors.

CHAPTER 2

SPTF OPERATIONS FROM 1961 to 1965

During this period SPTF was an active loan window and a major capital source for IDB. A net 116 loans, totaling \$494 million, were made to 18 Latin American countries to help finance projects totaling an estimated \$1.2 billion dollars.

	<u>Number of loans</u>	<u>Amount</u>	<u>Country and other contributions</u>	<u>Total</u>
		----- (millions) -----		
Housing	32	\$214.8	\$316.2	\$ 531.0
Water and sewage	36	160.6	162.7	323.3
Agriculture	28	87.1	129.8	216.9
Education	<u>20</u>	<u>31.7</u>	<u>54.1</u>	<u>85.8</u>
Total	<u>116</u>	<u>\$494.2</u>	<u>\$662.8</u>	<u>\$1,157.0</u>
Percent		42.71	57.29	100

Information furnished by the executive branch indicates that the loan projects had been essentially completed as of December 31, 1972, except for two potable water and sewer systems still under construction. Under the 32 low-income housing projects, 236,698 urban and rural housing units were constructed, renovated, or enlarged. The water and sewer projects produced 2,270 potable water systems, 194 sewer systems, and 1 rain drainage system benefiting 2,255 communities. The agriculture projects have benefited more than 2 million acres, through the financing of 100 cooperatives with 6,000 members, and have helped construct 8 markets. The education projects assisted 65 universities with 312,062 students.

The amount of SPTF loans received by individual countries has ranged from about \$7.6 million to about \$72.9 million. Seven countries received more than \$30 million each in loans. Four of these--Argentina, Mexico, Venezuela, and Brazil--are generally considered the more developed Latin members. Appendix II shows the amounts of loans each country received.

SPTF also provided about \$12 million in technical assistance on a loan, grant, or reimbursable basis. This assistance was available in the same four areas as the loans plus mobilization of domestic financial resources and strengthening of financial institutions.

Technical assistance operations from 1961 to 1965 may be classified as (1) direct technical assistance and (2) training and other activities. Direct technical assistance of about \$7.1 million was generally used for projects identifiable to a particular country. Some of this assistance was authorized in conjunction with loans when the nature of the project required improvement in the operations of the recipient institutions. The training and other activities category received about \$4.5 million and consisted of IDB-sponsored courses and seminars on economic and social development. Assistance was also authorized for courses and seminars in conjunction with other international organizations.

SPTF AUDITS AND EVALUATIONS

Our review primarily emphasized the current operations and future prospects of SPTF. Therefore we did not attempt to independently evaluate the early 1961-65 phase of SPTF operations. Instead, we reviewed executive branch and IDB efforts to perform such evaluations. We observed that (1) State and Treasury did not independently assess SPTF effectiveness and (2) under the SPTF agreement, IDB was not required to include any assessments of effectiveness in its annual reporting on SPTF operations. To date, IDB has performed some evaluations of its own operations which have included only very scattered aspects of SPTF operations.

Also, although a 1967 amendment to the Foreign Assistance Act directed the President to seek audit authority for the Comptroller General over any fund established solely by U.S. contributions and managed by an international organization, Treasury has not been able to achieve this in SPTF's case.

State and Treasury appraisals

During our review, we attempted to determine whether State or Treasury had independently assessed SPTF effectiveness. We could find no independent assessment.

Adequacy of IDB reporting

Article V, section 5.04, of the SPTF agreement requires that IDB issue a detailed annual report containing appropriate information on SPTF operations, the progress of projects for which disbursements were made, and other matters relating to SPTF, including a factual presentation of the measures being taken in the borrowing countries to accomplish the necessary social reforms. IDB issued such reports from 1961 to 1970. Thereafter, the United States relieved IDB from the requirements for a separate report primarily because, by that time, SPTF loans had essentially been fully disbursed and, to a lesser extent, the cost of the annual report would be saved. IDB agreed to continue reporting on the financial aspects of SPTF and on projects and activities SPTF financed. Currently IDB's published annual reports include the audited SPTF financial statements and briefly describe new commitments and projects financed by SPTF.

We reviewed the SPTF annual reports to see if they adequately disclosed SPTF operations. The reports contain brief descriptions of the loans and technical assistance projects approved in the particular year, general information on the social progress achieved in Latin America in such areas as tax and land reform, and summaries of the overall progress being made in each country. The reports also contain a very brief description of the physical progress on each loan; for example, the number of housing units completed or number of sewer lines in operation. Thus, IDB substantially met the reporting requirements established for SPTF. However, these reports do not adequately disclose the social effect of individual loans or technical assistance.

In 1968 IDB established an independent review group to evaluate IDB operations. The Comptroller General assisted in prescribing the reporting standards for this group, which reports directly to the Board of Executive Directors. Evaluations performed have included limited aspects of SPTF operations, but no separate reviews of SPTF operations have been made since the group has made its observations and evaluations as a part of a broad review of a slice of IDB operations.

We believe improved reporting would have contributed to the effective administration of early SPTF operations. It

would also contribute to an increased awareness of the effectiveness of ongoing SPTF activities and aid in planning future uses of SPTF resources.

Audit by the Comptroller General

Although the United States was the sole contributor to SPTF, the 1961 agreement made no provisions for the Comptroller General to examine its operations. In 1967 the Foreign Assistance Act of 1961 was amended (22 U.S.C. 2221d) to provide that any agreement between the United States and an international organization for administering a fund to which the United States is the sole contributor shall provide that the Comptroller General conduct such audits as are necessary to assure that the fund is administered according to the agreement. This amendment also provided that the President seek to modify existing agreements.

Treasury officials informed us that they discussed this matter with IDB officials and found that they were not receptive to amending the SPTF agreement for this purpose. However, IDB did agree that the charter of a new independent audit and evaluation body then being formed within IDB would cover all aspects of IDB operations, including reviews of SPTF activities. The evaluation body was established after the Congress, also in 1967, amended the Inter-American Development Bank Act of 1959 (22 U.S.C. 283j-1), directing Treasury to seek establishment of such a body.

CHAPTER 3

OPERATIONS SINCE 1965 AND FUTURE PROSPECTS

IDB decided in 1964 to expand its Fund for Special Operations (FSO) to include the types of social loans previously financed by SPTF. At that time, the United States agreed that, in the future, it would contribute to FSO and that there would be no further funding of SPTF. This was done with a view to closing out SPTF as a separate loan window in IDB. SPTF's lending program was terminated in 1965, and in 1966 it was recognized that substantial loan repayments would soon accrue. The interim plan established at that time to use the repayments was to buy participations in existing IDB loans made from FSO and to finance limited technical assistance.

IDB had invested about \$147.3 million in participation loans as of June 30, 1973, and thus substantially protected their value from currency devaluations. Though the United States prescribed the broad criteria for making these participations, this process has resulted in most SPTF resources not being directed to specific end uses on the basis of a planned program for meeting the priority social development needs of Latin America.

As early as 1970 State and Treasury officials considered the need to devise new uses for SPTF resources. Since then State, which has ultimate responsibility for administering SPTF, has intermittently studied alternate uses. In late November 1973, State officials advised us that IDB was nearing completion of arrangements to transfer a portion of SPTF resources to the Inter-American Foundation (IAF) and several agricultural research institutes in Latin America. In this regard, we have noted that the Congress has gone on record in the Foreign Assistance Act of 1973 that some of these SPTF resources should be transferred to IAF. However, as of late November 1973, the executive branch had not yet developed a plan or program for returning all SPTF resources to the direct program type of use for which SPTF was established.

PARTICIPATIONS IN FSO LOANS

Although the United States in 1964 agreed to contribute to an expanded FSO in lieu of further funding of SPTF, a decision concerning what would be done with future repayments from the original SPTF loan program was not made at that time. By 1966 IDB recognized that large amounts of loan repayments would soon accrue in soft Latin currencies and that their use would present problems due to their limited convertibility and, in particular, their vulnerability to devaluation. As administrator, IDB set up an internal working group to study the matter.

IDB's study culminated in a 1966 report which concluded that SPTF local currencies could be used in IDB's lending operations and that SPTF should therefore not be terminated. The report further recommended that SPTF resources be used, as appropriate, either to (1) make a parallel SPTF loan to finance local currency portions of FSO loans or (2) take participations in the local currency portion of FSO loans. IDB presented its recommendations to the United States for concurrence. The United States approved the use of the participations technique in April 1967, provided the FSO loans complied in substance with the SPTF agreement. IDB agreed to this. At the request of the United States, IDB further agreed that, when both FSO and SPTF local currencies were on hand, it would use the SPTF currencies first, because the FSO local currencies already had maintenance-of-value protection and this would permit the SPTF currencies to be invested in FSO loans. Once SPTF currencies were invested in FSO, the borrowing country assumed responsibility for maintaining their value in terms of U.S. dollars and would be required to pay in additional amounts of that currency when a devaluation has occurred.

Under the participation technique, SPTF moneys have been used to purchase fixed periods of maturities of FSO loans. Although these investments earn interest, the record shows that the primary U.S. objectives in approving FSO participations were to protect these soft currencies against devaluation and to serve as an interim measure pending some U.S. decision on the disposition of the overall SPTF. During our review, the then Acting U.S. Executive Director to IDB advised that another U.S. objective at the time was to keep from opening up these SPTF moneys to a host of

potential applicants and that this also benefited IDB by enabling it to stretch out the use of FSO dollars.

In October 1968 the IDB Board of Executive Directors authorized the use of SPTF dollar resources for participations. The record is not clear as to whether the United States had any specific objectives in mind in agreeing to this use of SPTF dollars or as to the extent the United States considered the matter. It does indicate that IDB's basis for the request was that SPTF had a fairly substantial amount of dollars (about \$23 million) available for use and did not anticipate needing these dollars for technical assistance operations or administrative expenses. IDB noted that the dollars were available because it had substituted about \$18 million in SPTF local currencies for dollar disbursements under later SPTF loans. Moreover, some borrowers had elected to repay some of their loans in dollars.

This authority to use hard U.S. dollar resources for participations continued until June 1970, when the United States requested that all further SPTF dollar commitments be minimized. The acting U.S. Executive Director informed us that this was done to conserve necessary dollars to meet a 1970 U.S. commitment of \$15 million for the Project Preparation Program. This program aims primarily at assisting the less developed Latin nations in preparing and bringing potential loan projects to a fundable stage.

Participations have constituted the largest single use of SPTF reflows since the end of the original loan program. As of June 30, 1973, \$147.3 million--about \$34.8 million in U.S. dollars and \$112.5 million in local currencies--has been used for this program. IDB's financial statements on SPTF valued these participations at about \$141 million at that same date, due to a \$6 million adjustment for differences in the exchange rates used for FSO and SPTF.

Essentially IDB's treasury division manages the participation process. This division monitors onhand SPTF currency balances and FSO disbursement needs. When an opportunity to invest in an FSO loan arises, the division buys a portion of the loan for SPTF. Generally, SPTF buys the last 5 years of the loan's maturity. The bulk of the participations made through June 30, 1973, will be repaid in the 1970s and 1980s.

Some repayments are stretched out to the year 2013. The majority of participations earn 2.25-percent interest.

Neither the United States nor the IDB Board of Executive Directors directly manages the application of SPTF resources to the specific FSO loans in which SPTF participates. This contrasts with the early years of SPTF operations when each loan was specifically reviewed and approved. Rather, the participation process is a routine money management decision.

A major effect of participations is that, as of June 1973, about \$147.3 million in SPTF loan reflows, consisting of about \$112.5 million in local currency and another \$34.8 million in U.S. dollars, has been channeled back to the same countries that received and repaid those loans. State officials pointed out that there are a number of practical difficulties involved in trying to use a local currency to purchase goods or services that another country needs. However, as appendix II shows, the larger, more advanced countries have continued to be the primary beneficiaries of SPTF assistance and the less developed countries have benefited only in smaller amounts. Brazil was the largest beneficiary of SPTF dollar participations, receiving \$11 million worth, and this, combined with its local currency participations, has resulted in its becoming the largest recipient of total SPTF loans and participations.

TECHNICAL ASSISTANCE OPERATIONS

SPTF technical assistance activities have increased in both volume and variety since 1966. Technical assistance approved through December 31, 1972, has totaled about \$33.6 million. Approximately \$9.4 million more is programed for expenditure in 1973. From 1961 to 1965, most of the technical assistance was directly project related. Since 1966 the technical assistance has been used to fund more training, integration, and other activities.

Our analysis of some of the current and past uses of SPTF resources for technical assistance indicated that a number of the larger projects, although useful, do not appear to be providing the direct social contribution originally envisioned as the primary purpose of SPTF. Other projects seem to be aimed primarily at economic rather than

social development. For example, a \$337,000 project was to help a Latin American country prepare a tourism development plan and a feasibility study of a tourism center.

The 1973 SPTF Technical Assistance Program contains further examples of this type of project. A \$9.4 million contribution has been requested for various types of technical assistance. This is a sharp increase from the 1972 program level. In addition, \$6.7 million is programmed for the Project Preparation Program.

FUTURE PROSPECTS

In June 1970 State notified IDB that the United States wished to soon enter into negotiations on the future of SPTF and began to study the future of SPTF. State further requested that IDB hold all future commitments of SPTF dollar resources to a minimum but permitted local currency uses to continue. In 1971 State postponed the negotiations because of potential sensitivity in connection with replenishment of FSO at that time.

In 1972 State intensified its efforts and since then has been considering a number of options. These options include complete termination and recovery of SPTF resources to the United States and IDB's direct use of some of the assets for specific social projects or programs. Moreover, State's Latin American Bureau has been considering a more active U.S. role in future reprogramings. In June 1973 Treasury also expressed its view. Treasury indicated that future dispositions of SPTF resources should provide for return of unneeded funds to the U.S. Treasury for general uses of the Government, to benefit the U.S. taxpayers.

In late November 1973, officials of State's Latin America Bureau informed us that IDB was nearing completion of arrangements to transfer a portion, as yet undetermined, of future SPTF resources to IAF. They also anticipated that IDB will transfer a relatively small portion to several agricultural research and training centers located in Latin America. In this regard, we have noted that the Congress has gone on record in the Foreign Assistance Act of 1973 that some of the SPTF's resources should be transferred to IAF. The act also provides that portions of SPTF moneys may remain with IDB to be used for original SPTF purposes with

emphasis on using the currencies of the more developed countries for the benefit of the less developed countries.

Therefore, the prospects are good for returning at least a portion of SPTF reflows to a more direct program type of use originally envisioned for SPTF. Although State officials advised us that the use of one country's currency to assist another country does present a number of practical difficulties, we have noted that, in the last few years, Treasury has been making substantial U.S. dollar purchases of Latin currencies in the commercial market to meet U.S. Government agencies' operating requirements in Latin America. We therefore suggest that, while new programs are being developed for use of SPTF funds in an orderly, noninflationary manner, State and Treasury explore the possibility of arranging to substitute some of the SPTF-held local currencies for dollar purchases. In this manner SPTF local currencies could be converted into U.S. dollar resources. These dollars would be less vulnerable to devaluation and would be available for use on any project or for whatever other disposition is made of SPTF resources.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

SPTF reflows currently amount to \$40 million annually and will continue to be substantial. However, since 1965 these resources have not been used to carry out the planned type of program of assisting specific high-priority social development projects for which SPTF was established. Nor has the United States participated with IDB in managing the use of most of these resources to their specific end uses. Instead, the bulk of SPTF resources have been used to purchase participations in FSO loans, and participations are essentially a money management operation.

The executive departments have been considering alternate uses for SPTF resources since 1970 and expect that IDB will return some of these resources to a more direct program use in the near future under IAF and also for agricultural research institutions. However, the departments have not yet reached any overall conclusions or developed a program for returning all of SPTF's approximately \$40 million annual reflows to this program type of use.

Therefore, we believe that the Secretaries of State and the Treasury need to take more active roles in managing these resources and need to attempt to channel them into uses which will more directly contribute to the priority social needs of Latin America. We further believe that maximizing the future uses of SPTF resources will first require determining the priority Latin American social needs, the extent to which SPTF resources can and should assist these priorities, and the types of projects or activities that will best accomplish these priorities. To the extent these SPTF resources cannot be effectively redirected, we believe that these executive departments should, in consultation with the Congress, seek some other disposition of these resources.

In addition, reporting requirements on SPTF operations have not adequately shown the social effects or contribution of individual SPTF loans or technical assistance. It is important to fully inform committees of the Congress having oversight in this area not only of plans and programs for

future uses of SPTF resources but also of the effectiveness and social contributions being achieved by current programs and uses.

RECOMMENDATIONS

The executive branch is considering SPTF's future and expects the return of some SPTF resources to a more direct program type of use in the near future. However, to maximize the use of all SPTF resources, we recommend that the Secretaries of State and the Treasury, in consultation with IDB, reassess current SPTF operations and devise a program or programs that will direct these resources to specific projects to assist the priority social needs of Latin America or seek other disposition of these resources in consultation with the Congress. Any programs developed should include these considerations:

- The highest priority social needs for Latin America.
- The extent to which SPTF resources can and should be effectively used to accomplish these priorities.
- The types of projects or activities that will best accomplish these priorities.

We also recommend that the Secretaries coordinate with and fully inform the appropriate committees of the Congress on plans and proposals for use of SPTF resources.

In addition, the Secretary of State should report annually to SPTF's legislative oversight committees, the Senate Committee on Foreign Relations, and the House Committee on Foreign Affairs on programs or projects approved, plans, and financial matters. Such reporting should also include periodic assessments of the accomplishments and effectiveness of the programs or projects being conducted.

CHAPTER 5

SCOPE OF REVIEW

At the request of the Chairman, Subcommittee on Inter-American Affairs, House Committee on Foreign Affairs, we reviewed the current operations and financial status of SPTF and the uses made of the funds appropriated for this Fund. The Chairman made his request to GAO representatives testifying before the Subcommittee on September 21, 1972, on Treasury Department management of U.S. participation in the Inter-American Development Bank.

IDB, an international organization, is outside our audit authority, and, although the Congress in 1967 directed the executive branch to seek this authority over wholly owned U.S. funds managed by an international organization, the executive branch has not been able to achieve this for SPTF. Therefore, we did not attempt to examine IDB's management of SPTF operations or to evaluate the relative success of SPTF projects or FSO projects in which SPTF resources have been invested.

We performed our review from the viewpoint of executive branch management of U.S. interests in SPTF. We placed primary emphasis on ascertaining the nature and scope of operations conducted with SPTF resources since the end of the SPTF loan program in 1965 and their consistency with the basic purposes and objectives for which SPTF was established. We ascertained SPTF's financial status, with emphasis on future reflows, and also reviewed the extent the executive branch or IDB had assessed the social and physical achievements of the \$494 million SPTF loan program.

We obtained such information and documentation on SPTF operations, finances, administration, and policies as was made available at our request from the files of State and Treasury, the U.S. agencies having primary responsibility for managing respective U.S. interests in SPTF and IDB. We also discussed management of U.S. interests in SPTF with officials of those agencies and with the acting U.S. executive director to IDB. In addition, we reviewed the legislative history of SPTF and obtained and reviewed published IDB reports on SPTF operations and finances.

PRINCIPAL U.S. OFFICIALS RESPONSIBLE FOR
ACTIVITIES DISCUSSED IN THIS REPORT

AppointedDEPARTMENT OF STATE

SECRETARY OF STATE:

Henry A. Kissinger	Sept. 1973
William P. Rogers	Jan. 1969
Dean Rusk	Jan. 1961

 ASSISTANT SECRETARY FOR INTER-AMERICAN
AFFAIRS AND U.S. COORDINATOR,
ALLIANCE FOR PROGRESS:

Jack B. Kubisch	May 1973
John Hugh Crimmins (acting)	Mar. 1973
Charles A. Meyer	Apr. 1969
Viron P. Vaky (acting)	Jan. 1969
Covey T. Oliver	July 1967
Robert M. Sayre (acting)	June 1967
Lincoln Gordon	Mar. 1966

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADMINISTRATOR:

Daniel S. Parker	Oct. 1973
John A. Hannah	Mar. 1969
William S. Gaud	Aug. 1966

DEPARTMENT OF THE TREASURY

SECRETARY OF THE TREASURY:

George P. Shultz	June 1972
John B. Connally	Feb. 1971
David M. Kennedy	Jan. 1969
Joseph W. Barr	Dec. 1968

 ASSISTANT SECRETARY
(INTERNATIONAL AFFAIRS):

John M. Hennessy	Feb. 1972
John R. Petty	May 1968
Winthrop Knowlton	Aug. 1966

APPENDIX III

Appointed

DEPARTMENT OF THE TREASURY

U.S. REPRESENTATIVE TO IDB'S
BOARD OF EXECUTIVE DIRECTORS:

John M. Porges	May 1973
Reuben Sternfeld (acting)	Dec. 1972
Henry J. Costanzo	Nov. 1969
Edward Clark	May 1968
W. True Davis, Jr.	Sept. 1966